

most probable life of at least 11 years in terms of a 7-year period--a procedure which implies a discount rate of about 8 percent. Under these conditions, the benefit-cost ratio for a given stream of benefits and costs will be higher in the Department of Commerce than in the VA. To the extent decisions turn on the relationship between costs and benefits, the VA will be inclined to reject projects which would be promoted under the standards employed in the Department of Commerce. Hence, resources will tend to flow from VA projects to Department of Commerce projects.

CONCLUSIONS

Federal agencies that use the explicit discounting technique may be making good use of this tool in evaluating individual projects. The analyst who examines a given project in detail, develops the discount rate which he considers appropriate, and calculates the present value of benefits and costs is in a better position to make defensible recommendations than if his analysis ignored the time periods over which benefits will be realized and costs incurred.

In our opinion, however, there is a greater value for the discounting technique when the decisionmaker must choose between many competing projects and this calls for a common standard with justification for variations in the discount rate which may be appropriate in special circumstances. Although some agencies indicate that the discount rate is viewed as an aid in choosing between programs within an agency, there appears to be little recognition that the evaluation of Federal programs calls for a common yardstick for use by all agencies.

In our opinion, the general acceptance of the technique of discounting by Federal agencies should be supplemented with improvements necessary to bring about consistency in and among agencies in discounting rates, techniques, and underlying concepts. We believe such improvements are needed if this aid is to be of most effective use to the agencies, the Bureau of the Budget, and the Congress in its evaluation of agency programs submitted for consideration.